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INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03

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TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

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R 221220Z MAR 74

FM AMEMBASSY WARSAW

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INFO AMEMBASSY BELGRAGE

USMISSION BERLIN

AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

USNATO 584

AMCONSUL POZNAN

C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 1581

E.O. 11652: GDS

TAGS: PFOR, PLS, US

SUBJECT: QUARTERLY REPORT ON MAJOR POLITICAL AND ECONOMIC
TRENDS

REF: WARSAW 70

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1. SUMMARY: ALL OBSERVABLE TRENDS IN POLAND DURING THE

FIRST QUARTER OF 1974 INDICATE THE CONTINUATION OF THE POLISH GOVERNMENT'S STRONG SUPPORT OF DETENTE AND THE FURTHER DEVELOPMENT OF EAST-WEST ECONOMIC ENGAGEMENT. DOMESTICALLY, THE GIEREK GOVERNMENT HAS TAKEN IMPRESSIVE ADDITIONAL STEPS TOWARDS CONSOLIDATING AND MODERNIZING ITS ADMINISTRATIVE CONTROL, AT BOTH THE NATIONAL AND LOCAL LEVELS. IT ALSO HAS MOVED FORWARD WITH AN AMBITIOUS PROGRAM OF WAGE AND PRICE ADJUSTMENTS, WHICH HAD BEEN ON THE DRAWING BOARDS FOR SEVERAL MONTHS BUT WAS LENT SPECIAL IMPETUS BY THE ADDITIONAL PRESSURES OF THE UNFORESEEN AND POTENTIALLY SERIOUS ECONOMIC DISLOCATIONS BROUGHT ON BY THE INTERNATIONAL ENERGY CRISIS.

2. ON THE INTERNATIONAL SCENE, POLAND SEEMS TO BE IN THE PROCESS OF GIVING GREATER PUBLIC EMPHASIS TO ITS RELATIONS WITH THE SOVIET UNION, FREQUENTLY SUGGESTING IN VARIOUS WAYS THAT THE GIEREK-BREZHNEV MEETING IN MOSCOW IN LATE DECEMBER 1973 HAD A SPECIAL SIGNIFICANCE. BY CONTRAST, RELATIONS WITH WEST GERMANY, WHICH SEEMED TO BE MOVING AHEAD WILL LATE LAST YEAR, APPEAR TO HAVE COOLED SOMEWHAT OF LATE. POLAND APPEARS TO BE PLACING ADDITIONAL EMPHASIS ON COMECON ECONOMIC INTEGRATION, PARTICULARLY BILATERALLY WITH THE GDR AND CZECHOSLOVAKIA. THE FIRST OFFICIAL VISIT TO POLAND OF THE VATICAN'S FOREIGN-AFFAIRS REPRESENTATIVE, CARDINAL CASAROLI, HAD NO VISIBLE EFFECT ON CHURCH-STATE RELATIONS, BUT IS PROBABLY VIEWED BY THE GOP AS HAVING BEEN HELPFUL TO BOTH ITS EXTERNAL AND INTERNAL IMAGE.

3. U.S. SALES TO POLAND APPEAR TO HAVE CONTINUED TO SURGE AHEAD, BUT THE INCREASE OF THE EX-IM BANK RATE TO 7 PERCENT ON FEBRUARY 4 AND THE CONTINUED ABSENCE OF ADDITIONAL CCC CREDITS MAKE US LESS COMPETITIVE. FURTHERMORE, THE FUTURE GROWTH OF U.S.-POLISH TRADE HAS BEEN CALLED INTO QUESTION BY THE RECENT SUSPENSION OF EX-IM BANK CREDITS TO POLAND. A SPEEDY RESOLUTION OF THIS PROBLEM IS NEEDED TO PREVENT A SEVERE AND LASTING SETBACK TO UR EXPORT PROSPECTS. ALSO, U.S. COMPANIES ARE ENCOUNTERING DIFFICULTIES IN TRYING TO DISCUSS MIXED-CAPITAL JOINT VENTURES WITH POTENTIAL POLISH INDUSTRIAL PARTNERS IN THE ABSENCE OF NEW REGULATIONS GOVERNING SUCH VENTURES, WHICH WE HAD

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BEEN LED BY POLISH OFFICIALS TO EXPECT EARLY THIS YEAR.

4. ON ALL FRONTS, THE GIEREK REGIME CONTINUES TO LOOK VIGOROUS, RESOURCEFUL, AND CRATIVELY PRAGMATIC. BUT THERE MAY BE SOMEWHAT ROUGHER SLEDDING LATER THIS YEAR WHEN THE IMPACT OF THE WAGE AND PRICE ADJUSTMENTS, COMPOUNDED BY A VISIBLE CREEPING INFLATION AND THE UNCERTAIN INTERNATIONAL ECONOMIC SITUATION, IS FELT MORE FULLY. AT THIS JUNCTURE,

HOWEVER, THE GIEREK LEADERSHIP REMAINS STABLE AND FIRMLY IN CONTROL AND THE ATMOSPHERE FOR MOVING AHEAD ON THE RECOMMENDATIONS CONTAINED IN WARSAW 70 REMAINS EXCELLENT. END SUMMARY.

5. INTERNAL POLITICAL SITUATION. EVER SINCE IT CAME TO POWER IN DECEMBER, 1970, THE GIEREK GOVERNMENT HAS COMPLAINED ABOUT RESISTANCE TO THE IMPLEMENTATION OF ITS SOCIAL AND ECONOMIC PROGRAMS BY ENTRENCHED AND ALLEGEDLY INEFFICIENT MIDDLE-LEVEL AND LOWER-LEVEL PARTY OFFICIALS AND GOVERNMENT BUREAUCRATS. IN THE FIRST QUARTER OF 1974, IT MOVED FORWARD BOLDLY WITH ITS REORGANIZATION OF LOCAL GOVERNMENT, WHICH HAS THE EFFECT OF MERGING PARTY AND GOVERNMENT LEADERSHIP AT THE POLICY-DIRECTION LEVEL AND INVOLVES THE APPOINTMENT OF MANAGERIAL-TYPE PROVINCIAL GOVERNORS (WOJEWODAS), CITY MAYORS (PRESIDENTS), AND COUNTY ADMINISTRATORS. WE HAVE BEEN TOLD BY A NUMBER OF LOCAL PARTY AND GOVERNMENT OFFICIALS THAT THE NEW SYSTEM IS BEING IMPLEMENTED RAPIDLY, THAT IT IS MUCH MORE EFFICIENT BECAUSE AUTHORITY AND RESPONSIBILITY ARE NOW CLEARLY FIXED IN DESIGNATED INDIVIDUALS, AND THAT IT IS RESULTING IN A 25 PERCENT OR MORE REDUCTION OF LOCAL GOVERNMENTAL EMPLOYEES. THE NET APPARENT EFFECT HAS BEEN TO GIVE THE GIEREK LEADERSHIP MORE DIRECT CONTROL OVER LOCAL GOVERNMENTS.

6. A SIMILAR MERGING OF PARTY AND GOVERNMENTAL LEADERSHIP RESULTS FROM THE APPOINTMENT OF POLITBIURO MEMBERS TO HEAD TWO KEY MINISTRIES. TEJCHMA WAS NAMED MINISTER OF CULTURE AND BARCIKOWSKI MINISTER OF AGRICULTURE. BOTH APPEAR TO HAVE BROADER POWERS THAN THEIR MINISTERIAL PORTFOLIOS NORMALLY WOULD GIVE THEM. THUS, THE TREND INTERNALLY APPEARS TO BE A CONTINUING CONSOLIDATION BY GIEREK OF HIS CONFIDENTIAL

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POSITION.

7. THE ECONOMIC SCENE. THE REGIME CONTINUES TO BANK HEAVILY ON ITS STRATEGY OF INCREASING REAL WAGES TO STIMULATE BETTER ECONOMIC PERFORMANCE, RATHER THAN AS A REWARD FOR GAINS ALREADY ACHIEVED. IN JANUARY, PLANS FOR WAGE INCREASES WERE ANNOUNCED FOR LARGE GROUPS OF WORKERS, INCLUDING MANY WHO UNDER THE NATIONAL PLAN WERE NOT SCHEDULED TO RECEIVE GENERAL INCREASES FOR AT LEAST TWO MORE YEARS. WHILE A SHARP PRICE INCREASE WAS IMPLEMENTED FOR GASOLINE, THE FREEZE ON BASIC FOOD PRODUCTS UNTIL THE YEAR'S END WAS REAFFIRMED. REGIME SPOKESMEN ADMIT THEIR "BOLD
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ACTION EUR-25

INFO OCT-01 ISO-00 SAI-01 CIAE-00 DODE-00 PM-07 H-03

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CEA-02 CU-04 NEA-10 SCI-06 AEC-11 NSF-04 /274 W
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R 221220Z MAR 74
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TO SECSTATE WASHDC 8221
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USMISSION BERLIN
AMEMBASSY BONN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY VIENNA
USNATO 585
AMCONSUL POZNAN

C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 1581

PACT ALLIES AND PARTLY IN CONNECTION WITH THE CELEBRATION
OF THE 30TH ANNIVERSARY OF PEOPLE'S POLAND. WHILE UNDOUBTEDLY
DESIRING TO MAKE AN ADEQUATE IDEOLOGICAL SHOW OF IT, BOTH
FOR DOMESTIC AND EXTERNAL CONSUMPTION, THE GIEREK REGIME
CONTINUES TO MOVE CAUTIOUSLY IN THIS AREA SO AS NOT TO
PROVOKE UNDESIRABLE REACTIONS FROM THE NATIONALISTIC POLES.
THUS, THE EXHORTATIVE SLOGANS EMPLOYED MAKE GENEROUS USE
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FO SUCH PHRASES AS "SOCIALIST PATRIOTISM," "SOCIAL
CONSCIOUSNESS", AND "BY THE PEOPLE, FOR THE PEOPLE", WHILE
GENERALLY AVOIDING STRIDENT MARXIST-LENINIST FORMULATIONS.

12. WE HAVE NOTICED A SLIGHT INCREASE IN NEGATIVE PRESS ITEMS ON THE UNITED STATES, BUT ON BALANCE WE ARE STILL GETTING A REMARKABLY GOOD PRESS HERE. POLISH SUPPORT FOR US-SOVIET DETENTE, ALWAYS STRONG, HAS BEEN EXPRESSED MORE FREQUENTLY AND FORCEFULLY IN RECENT WEEKS IN PRESS COMMENTARIES ON A VARIETY OF INTERNATIONAL TOPICS, PARTICULARLY IN THE REPORTING ON U.S. EFFORTS TO EFFECT A MIDDLE EAST SETTLEMENT.

13. FINALLY, THERE IS A TREND TOWARDS GREATER CONCERN WITH POLAND'S IMAGE ABROAD AND AN INCREASED EFFORT TO IMPROVE THAT IMAGE, PARTICULARLY IN THE UNITED STATES. THE POLONIA ORGANIZATION HAS MOVED INTO MORE PRESTIGIOUS QUARTERS AND IS GETTING ADDITIONAL FUNDS AND PERSONNEL. ANOTHER STRAW IN THIS BREEZE WAS THE RECENT VISIT TO THE UNITED STATES OF A FOREIGN MINISTRY CULTURAL DELEGATION TO DISCUSS WITH STATE DEPARTMENT AND USIA OFFICIALS WAYS IN WHICH POLAND CAN GAIN GREATER AND MORE POSITIVE EXPOSURE IN U.S. MEDIA, EDUCATIONAL INSTITUTIONS, AND THE PERFORMING ARTS.

14. CHURCH-STATE-VATICAN RELATIONS. THE COMMUNIQUE ISSUED FOLLOWING ARCHBISHOP CASAROLI'S FEBRUARY VISIT CONTAINS MUTUAL EXPRESSIONS OF GOOD WILL AND INDICATES GENERAL AGREEMENT ON EUROPEAN SECURITY, DETENTE, AND OTHER WORLD PROBLEMS. BOTH SIDES EXPRESSED WILLINGNESS TO CONTINUE THEIR TALKS ON A REGULAR BASIS. HOWEVER, THEY CLEARLY REMAIN APART ON THE ISSUE OF GREATEST CONCERN TO THE POLISH CHURCH--FORMAL GUARANTEES OF ITS RIGHT TO FUNCTION AS A RECOGNIZED INSTITUTION. WHILE CASAROLI REFUSED TO DEAL WITH THE ISSUE OF WARSAW-VATICAN DIPLOMATIC RELATIONS, IT CLEARLY REMAINS UPPERMOST IN THE MINDS OF POLISH OFFICIALS. THERE WERE SIGNS FOLLOWING THE VISIT THAT THE REGIME WOULD LIKE TO PLAY U ALLEGED DIVERGENCIES BETWEEN THE VATICAN AND THE POLISH EPISCOPATE. HOWEVER, CHURCH OFFICIALS IN ROME AND WARSAW ARE EMPHASIZING THE CLOSE COORDINATION THAT EXISTS BETWEEN THEM. THUS, WHILE THE GOP AND THE VATICAN WILL CONTINUE TO TALK, A LONG AND CONFIDENTIAL
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PROBABLY TORTUOUS ROAD LIES AHEAD.

15. FOREIGN RELATIONS. THE YEAR HAS BEGUN WITH THE POLES TALKING AND WRITING ABOUT THEMSELVES AS THE "SECOND SOCIALIST POWER", AND IN THE PROCESS SUGGESTING THAT A NEW SPECIAL RELATIONSHIP WITH THE SOVIET UNION IS EMERGING. THE GIEREK-BREZHNEV MEETING IN MOSCOW IN LATE DECEMBER IS FREQUENTLY REFERRED TO IN POSITIVE TONES IN SPEECHES AND IN PRESS COMMENTARY, PARTICULARLY IN INDICATING ALLEGED ECONOMIC ADVANTAGES TO POLAND EMANATING FROM THE CLOSE TIES TO THE SOVIET UNION. THIS HAS BEEN TRUE WITH REGARD

TO SOVIET PETROLEUM DELIVERIES THIS YEAR AT PRE-CRISIS PRICES, A "SPEED-UP" IN THE DELIVERY OF SOVIET EQUIPMENT FOR THE NEW KATOWICE STEEL MILL, THE RECENT SIGNING OF AN AGREEMENT WITH THE SOVIETS FOR POLAND'S FIRST NUCLEAR POWER PLANT, AND THE DECISION ANNOUNCED IN EARLY MARCH TO BUILD POLAND'S THIRD MAJOR OIL REFINERY AT BLACHOWNIA SLASKA. ALTHOUGH PUBLIC EXPRESSIONS OF FEALTY TO THE SOVIET UNION AND GRATITUDE FOR SOVIET "ECONOMIC ASSISTANCE" ARE STANDARD FARE ON THE POLISH SCENE, THEY SEEM TO BE GIVEN A SLIGHTLY DIFFERENT TWIST NOW. THE TONE IS LESS ONE OF OBSEQUIOUSNESS AND MORE THAT OF A CONFIDENT PARTNER EXPRESSING PRIDE IN THE RELATIONSHIP. HOW MUCH OF THIS REFLECTS AN ACTUAL QUALITATIVE CHANGE IN THE RELATIONSHIP AND HOW MUCH IS WISHFUL THINKING OR A NECESSARY SMOKESCREEN, WE CANNOT SAY AT THIS JUNCTURE. BUT A GENUINE EFFORT SEEMS TO BE IN PROCESS TO GIVE THE APPEARANCE OF A MORE EQUAL PARTNERSHIP, REDOUNDING TO POLAND'S ADVANTAGE, WHICH WAS EXEMPLIFIED AT THE HIGHEST LEVEL BY THE GIEREK-BREZHNEV TETE-A-TETE IN DECEMBER.

16. POLISH-WEST GERMAN RELATIONS NOTICEABLY COOLED IN THE FIRST QUARTER OF 1974. NEGOTIATIONS ON CREDITS AND THE REPATRIATION OF ETHNIC GERMANS APPARENTLY HAVE STALLED AND WE HAVE BEEN TOLD RECENTLY BY TWO NORMALLY WELL-INFORMED POLISH JOURNALISTS THAT GIEREK'S VISIT TO BONN, WHICH WAS BEING DISCUSSED LATE LAST YEAR AS A POSSIBILITY FOR THIS SPRING, HAS BEEN POSTPONED INDEFINITELY. THIS IMPASSE HAS BEEN REFLECTED IN THE POLISH PRESS WHICH HAS BECOME INCREASINGLY CRITICAL OF WEST GERMANY IN RECENT WEEKS.
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GERMANY, OF COURSE, REMAINS VERY MUCH OF A NEURALGIC POINT FOR POLAND; AS BRANDT AND HIS OSTOPOLITIK SHOW SIGNS OF FALTERING, IT IS NOT SURPRISING TO SEE INCREASING SIGNS OF A NEGATIVE POLISH REACTION.

17. POSSIBLY CONNECTED WITH THE EMERGING "SPECIAL RELATIONSHIP" WITH THE SOVIET UNION AND THE PRESS TALK OF POLAND AS THE SECOND SOCIALIST POWER IS THE MORE ACTIVE ROLE POLAND APPEARS TO BE TAKING IN RELATIONS WITH WEST EUROPEAN COMMUNIST PARTIES. SINCE DECEMBER, POLAND HAS EXHIBITED ALMOST FRENETIC ACTIVITY IN CONTACTS WITH THE FRENCH, ITALIAN, WEST GERMAN, SPANISH AND WEST BERLIN PARTIES. MOSCOW OBVIOUSLY FINDS THE POLISH LEADERSHIP WELL-SUITED
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, FOREIGN RELATIONS, TRADE, PETROLEUM, SUPPLIES, MEETING REPORTS, ECONOMIC TRENDS, MARXISM LENINISM, REFINERIES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974WARSAW01581
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740061-0810
From: WARSAW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740320/aaaaatdr.tel
Line Count: 321
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: WARSAW 70
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 25 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAR 2002 by kelleyw0>; APPROVED <06 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: QUARTERLY REPORT ON MAJOR POLITICAL AND ECONOMIC TRENDS
TAGS: PFOR, PL, US, UR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005